

Decision 02-06-049 June 27, 2002

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

The application of SAN DIEGO GAS & ELECTRIC (U 902 E) for approval of servicing agreement between the State of California Department of Water Resources ("DWR") and SDG&E Company Pursuant to Chapter 4 of the Statutes of 2001 (Assembly Bill 1 of the First 2001-2002 Extraordinary Session).

Application 01-06-039
(Filed June 22, 2001)

**OPINION GRANTING THE MOTION OF SAN DIEGO GAS & ELECTRIC
COMPANY WITH RESPECT TO INCREMENTAL COSTS**

Summary

In Decision (D.) 01-09-013, we approved the servicing agreement between San Diego Gas & Electric Company (SDG&E) and the California Department of Water Resources (DWR). The servicing agreement set forth the terms and conditions under which SDG&E is to provide transmission and distribution of DWR-purchased electricity, as well as billing, collection and related services. As part of the servicing agreement, DWR agreed to pay SDG&E's incremental costs for providing the services associated with the 20/20 rebate program, and for billing services, metering services, and meter reading services.

We expressed concern about the possible overestimate of incremental costs and stated that we would order subsequent proceedings to review the costs that SDG&E charges to DWR, and to determine if those costs are reasonable. The Commission ordered SDG&E to file a motion "seeking approval of the basis on

which the incremental costs contained in the servicing agreement and charged to DWR were calculated.” (D.01-09-013, Ordering Paragraph (OP) 8, p. 22.)

Today’s decision grants SDG&E’s motion and approves the incremental costs charged by SDG&E to DWR as reasonable.

Background

On September 26, 2001, SDG&E filed its motion in compliance with Ordering Paragraph 8 of D.01-09-013. The motion and the attachments to the motion describe the bases upon which the estimated incremental costs to be charged to DWR were calculated.

SDG&E states that it worked with DWR in the negotiation of the service fees and that it provided DWR with the requested details of its cost estimates. SDG&E’s estimated costs are based on the following guidelines: (1) the costs will reimburse SDG&E for its actual, incremental costs incurred on behalf of DWR; (2) SDG&E will exercise reasonable commercial efforts to manage its operations so as to minimize costs and keep the costs within the budgeted costs shown in the servicing agreement; (3) for the majority of SDG&E’s costs, SDG&E will invoice DWR based on actual costs and provide DWR with an invoice itemizing and documenting such costs; and (4) the costs incurred for service to DWR will not be capitalized for accounting or ratemaking purposes. Instead, all of the costs of serving DWR will be treated as expenses.

The attachments to the motion provide a breakdown of the estimated costs of the various services that SDG&E will provide to DWR. The detailed cost information parallels the aggregated cost information that was contained in Attachments F and G of the servicing agreement, and approved in D.01-09-013 as part of the servicing agreement.

SDG&E represents that the attachments to the motion provide the information needed for the Commission to determine that the bases on which SDG&E will charge DWR is reasonable and consistent with the servicing agreement approved in D.01-09-013, and that the Commission should approve the bases on which the incremental costs were calculated.

No one filed any response to SDG&E's motion.

Discussion

As we stated in D.01-09-013, we must review the incremental costs that SDG&E charges DWR to ensure that they are reasonable. If we determine that the expenses are unreasonable in any part, we will require the utility to reduce its bill to DWR.

The motion and the attachments to the motion provide detailed descriptions as to how the estimated incremental start-up costs and ongoing costs in Attachments F and G of the servicing agreement were calculated. SDG&E states that the estimated costs were developed using managerial estimates of the incremental increase to material costs or labor costs associated with specific DWR activities. Whenever possible, SDG&E states that actual expenses are used to bill DWR.

According to SDG&E, actual costs may vary from the estimates in the servicing agreement for several reasons. Most of the costs were estimated before the program details were established and without actual experience, and before any final Commission decisions were issued. SDG&E states that it is likely that in some cases costs may not materialize, and in other cases unexpected costs will arise.

SDG&E represents that it has established the necessary internal accounting processes for the tracking and monitoring of actual expenses associated with

DWR costs. Before DWR is billed, SDG&E reviews all of the expenses to ensure that only actual and incremental costs are charged to DWR. In addition, the invoices billed to DWR contain itemized costs along with the supporting cost documentation.

We have reviewed the detailed cost estimates attached to the motion and the basis for all of the charges, and have compared the estimates to what was included in Attachments F and G of the servicing agreement. We conclude that the incremental costs that SDG&E bills to DWR for providing services under the servicing agreement are reasonable. Since we have determined that these incremental costs are reasonable, no further proceedings to review these costs are necessary and this proceeding should be closed.

Since this matter is uncontested, and this decision grants the relief requested, the comment period is waived as provided for in Rule 77.7(f)(2).

Findings of Fact

1. D.01-09-013 approved the servicing agreement between SDG&E and DWR.
2. D.01-09-013 expressed concern about the possible overestimate of incremental costs, and ordered SDG&E to file a motion to seek approval of the basis on which the incremental costs contained in the servicing agreement and charged to DWR were calculated.
3. The attachments to SDG&E's motion provide a detailed breakdown of the estimated costs of the various services that SDG&E will provide to DWR, and parallel the aggregated cost information that was contained in Attachments F and G of the servicing agreement.
4. We have reviewed the detailed cost estimates attached to the motion and the basis for all of the charges, and have compared the estimates to Attachments F and G of the servicing agreement.

Conclusions of Law

1. The incremental costs that SDG&E bills to DWR for providing services under the servicing agreement are reasonable.
2. No further proceedings are needed to review the reasonableness of the incremental costs, and this proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. The September 26, 2001 motion of San Diego Gas & Electric Company (SDG&E) filed in compliance with Ordering Paragraph 8 of Decision (D.) 01-09-013 is granted. The bases upon which the incremental costs charged by SDG&E to the California Department of Water Resources pursuant to the servicing agreement approved in D.01-09-013 are deemed reasonable.
2. This proceeding is closed.

This order is effective today.

Dated June 27, 2002, at San Francisco, California.

LORETTA M. LYNCH
President
HENRY M. DUQUE
CARL W. WOOD
GEOFFREY F. BROWN
MICHAEL R. PEEVEY
Commissioners